

FDIC State Profile

Winter 2004

South Dakota

South Dakota's economy continues to grow, though manufacturing remains weak.

- South Dakota's economy gained 300 jobs in the third quarter, the third consecutive quarter of growth. All sectors except construction and leisure and hospitality added jobs in the third quarter. Since the downturn ended nine quarters ago, 3,900 net jobs lost have been recovered, and an additional 2,900 jobs have been added (See Chart 1).
- Manufacturing employment continues to face a bumpy road, as manufacturing jobs declined slightly after two consecutive quarters of growth. Over the past four years, South Dakota's economy has added 4,900 net jobs, but the manufacturing sector has contracted by 5,200 jobs.
- South Dakota's unemployment rate increased slightly in the third quarter, from 3.2 percent to 3.3 percent, but continued to be the second lowest of in the nation.

Banking performance remains solid.

- As South Dakota's economy has rebounded, so has asset quality for institutions headquartered in the state. Delinquencies have declined markedly while the net charge-off rate has been steady (See Table 1).
- An improving economy has spurred loan demand. Loans as a percent of assets increased 1.2 percentage points during the past year to a record 68.2 percent.
- Perhaps reflecting an ability to reprice assets upward while holding deposit rates steady, net interest margin performance improved in the third quarter versus a year ago.

Cattle prices are forecasted to remain high in 2005.

- Cattle are the most important agricultural commodity in South Dakota, accounting for 37 percent of agricultural cash receipts in 2003.
- The United States Department of Agriculture (USDA) forecasts 2005 cattle prices at \$85.00 per hundredweight, slightly exceeding the record level of \$84.72 set in 2004 (See Chart 2).

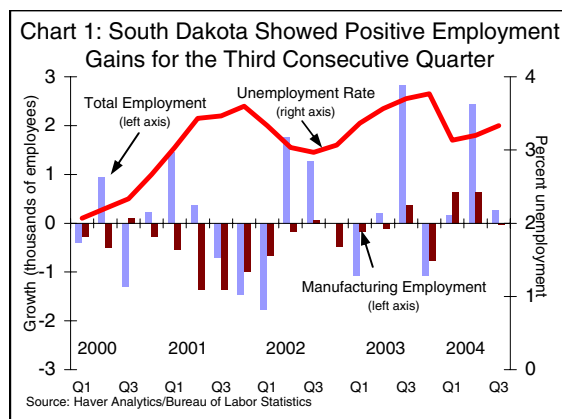
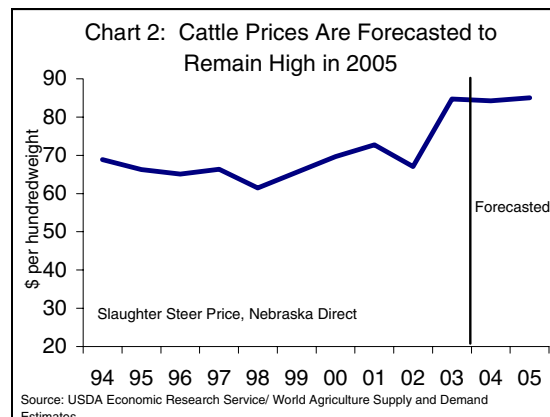


Table 1: Capital Levels Are Relatively Unchanged While Asset Quality Improved and Earnings Increased

| | September | | | | |
|-------------------------------|-----------|-------|-------|-------|-------|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| Capital | | | | | |
| Tier 1 Leverage Capital Ratio | 11.24 | 11.26 | 11.32 | 11.51 | 11.19 |
| Asset Quality | | | | | |
| Past Due Loan Ratio | 1.39 | 1.87 | 2.06 | 1.96 | 1.64 |
| Net Charge-off Rate | 0.07 | 0.08 | 0.08 | 0.07 | 0.07 |
| Earnings | | | | | |
| Pretax Return on Assets | 1.80 | 1.67 | 1.79 | 1.71 | 1.94 |
| Net Interest Margin | 4.46 | 4.25 | 4.42 | 4.41 | 4.63 |

Source: FDIC. Figures are median values.



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- Declining cattle numbers, the likelihood that restrictions on Canadian imports will continue for at least part of 2005, and the ongoing popularity of high-protein diets contribute to the expected continuing favorable prices.

The long-term trend of core funding erosion has resumed.

- In the 1990s, a confluence of competitive factors, ranging from rapidly increasing stock prices to strong deposit growth in large banks and credit unions, made core deposits more difficult to acquire for community institutions.¹ As a result, core funding in these institutions dropped steadily in the 1990s (See Chart 3).
- Stock market weaknesses in 2001 and 2002 helped to stabilize core funding temporarily, as funds flowed from the markets into the safety of insured deposits.
- However, recent improvement in the stock markets again has lured funds out of community banks, and the long-term downward trend in core funding appears to have resumed. After increasing in 2003, core funding dramatically declined in 2004 and now makes up just 70.2 percent of community bank assets in South Dakota, an all-time low.

South Dakota's rural counties have continued to lose population since the 2000 Census.

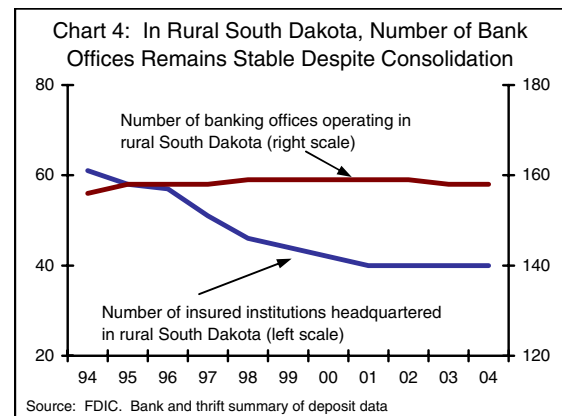
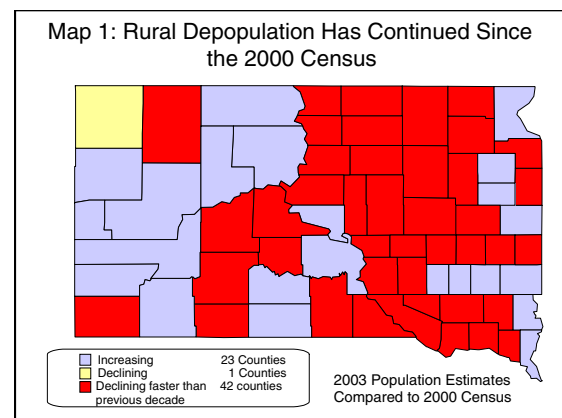
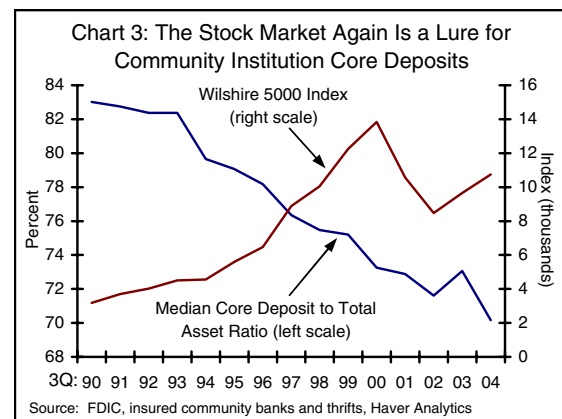
- Forty-three of South Dakota's 66 counties lost population from 2000 to 2003, extending the long-term trend of rural to urban migration. Forty-two of those counties lost population at a greater rate than during the 1990 to 2000 decade (See Map 1).
- Haakon County and Jones County, rural counties in the center of the state, each lost more than 8 percent of their population in the 2000 to 2003 period. By contrast, Lincoln County in the **Sioux Falls** metropolitan area grew 21 percent in the past three years.
- Rural counties that are losing population may be in danger of losing economic viability, as shrinking tax rolls make it difficult to maintain essential infrastructure, such as county government and schools.

The number of rural bank offices has increased slightly despite depopulation.

- The rate of decline in the number of hometown institutions in rural South Dakota has been nearly twice that of South Dakota's urban areas during the past decade.
- Rural South Dakota has seen little change in the number of banking offices despite a net loss of 21 headquartered

institutions. The number of banking offices operating in rural South Dakota increased from 156 to 158 in the 10 years ending June 2004 (See Chart 4).

- Faced with lower market growth prospects and seeking opportunity, rural South Dakota institutions are increasingly operating branches in urban areas. As a result, the proportion of branches located in urban areas has increased from 11.6 percent in 1994 to 23.9 percent in 2004. Currently, 9 rural institutions, representing 22.5 percent of all rural South Dakota institutions, are operating 21 branch offices in urban areas.



¹"Core deposits" include savings, checking, and money market accounts, as well as time deposits of less than \$100,000. These are usually considered more stable funding sources.

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South Dakota at a Glance

| General Information | Sep-04 | Sep-03 | Sep-02 | Sep-01 | Sep-00 |
|--|-------------|-------------|------------|------------|------------|
| Institutions (#) | 93 | 95 | 97 | 97 | 102 |
| Total Assets (in thousands) | 439,156,671 | 72,458,074 | 72,181,882 | 39,011,697 | 37,886,116 |
| New Institutions (# < 3 years) | 0 | 0 | 1 | 1 | 1 |
| New Institutions (# < 9 years) | 4 | 4 | 6 | 6 | 8 |
| Capital | Sep-04 | Sep-03 | Sep-02 | Sep-01 | Sep-00 |
| Tier 1 Leverage (median) | 11.24 | 11.26 | 11.32 | 11.51 | 11.19 |
| Asset Quality | Sep-04 | Sep-03 | Sep-02 | Sep-01 | Sep-00 |
| Past-Due and Nonaccrual (median %) | 1.39% | 1.87% | 2.06% | 1.96% | 1.64% |
| Past-Due and Nonaccrual >= 5% | 6 | 10 | 10 | 13 | 16 |
| ALLL/Total Loans (median %) | 1.64% | 1.72% | 1.72% | 1.74% | 1.66% |
| ALLL/Noncurrent Loans (median multiple) | 1.93 | 2.18 | 1.88 | 2.00 | 2.63 |
| Net Loan Losses/Loans (aggregate) | 1.09% | 3.99% | 4.85% | 2.80% | 3.81% |
| Earnings (Year-to-Date Annualized) | Sep-04 | Sep-03 | Sep-02 | Sep-01 | Sep-00 |
| Unprofitable Institutions (#) | 1 | 1 | 5 | 4 | 3 |
| Percent Unprofitable | 1.08% | 1.05% | 5.15% | 4.12% | 2.94% |
| Return on Assets (median %) | 1.42 | 1.25 | 1.30 | 1.35 | 1.54 |
| 25th Percentile | 0.99 | 0.87 | 0.80 | 0.99 | 1.06 |
| Net Interest Margin (median %) | 4.46% | 4.25% | 4.42% | 4.41% | 4.63% |
| Yield on Earning Assets (median) | 6.10% | 6.34% | 7.13% | 8.47% | 8.78% |
| Cost of Funding Earning Assets (median) | 1.58% | 1.98% | 2.69% | 4.04% | 4.10% |
| Provisions to Avg. Assets (median) | 0.05% | 0.10% | 0.08% | 0.12% | 0.12% |
| Noninterest Income to Avg. Assets (median) | 0.63% | 0.59% | 0.63% | 0.60% | 0.64% |
| Overhead to Avg. Assets (median) | 3.06% | 3.12% | 3.13% | 3.09% | 2.96% |
| Liquidity/Sensitivity | Sep-04 | Sep-03 | Sep-02 | Sep-01 | Sep-00 |
| Loans to Deposits (median %) | 86.32% | 80.07% | 82.15% | 81.85% | 81.83% |
| Loans to Assets (median %) | 68.22% | 67.02% | 67.56% | 67.53% | 66.58% |
| Brokered Deposits (# of Institutions) | 29 | 24 | 24 | 28 | 28 |
| Bro. Deps./Assets (median for above inst.) | 3.38% | 3.05% | 3.26% | 2.51% | 2.13% |
| Noncore Funding to Assets (median) | 16.89% | 14.02% | 15.85% | 14.17% | 14.14% |
| Core Funding to Assets (median) | 68.09% | 72.28% | 71.20% | 72.06% | 72.10% |
| Bank Class | Sep-04 | Sep-03 | Sep-02 | Sep-01 | Sep-00 |
| State Nonmember | 58 | 58 | 60 | 62 | 64 |
| National | 18 | 19 | 19 | 18 | 21 |
| State Member | 13 | 14 | 14 | 13 | 13 |
| S&L | 0 | 0 | 0 | 0 | 0 |
| Savings Bank | 4 | 4 | 4 | 4 | 4 |
| Stock and Mutual SB | 0 | 0 | 0 | 0 | 0 |
| MSA Distribution | # of Inst. | Assets | % Inst. | % Assets | |
| No MSA | 77 | 9,602,065 | 82.80% | 2.19% | |
| Sioux Falls SD | 14 | 429,210,851 | 15.05% | 97.74% | |
| Rapid City SD | 2 | 343,755 | 2.15% | 0.08% | |